



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON DC 20301-1100



OCT 9 1999

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer \$37.374 million of Army family housing construction improvement funds into the Department of Defense Family Housing Improvement Fund (FHIF) to finance a family housing privatization project at Fort Stewart and Hunter Army Airfield, Georgia.

The Army will use these funds to invest in a real estate partnership that will provide 3,702 renovated and new family housing units at Fort Stewart and Hunter Army Airfield.

A description of the proposed project is enclosed. Representatives of the Army are available to provide any additional information you or your staff may desire.

A similar letter is being sent to the Chairmen and Ranking Members of the other congressional Defense Committees.

Sincerely,

Dov S. Zakheim

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



MILITARY HOUSING PRIVATIZATION INITIATIVE PROJECT SUMMARY

INSTALLATION: Fort Stewart and Hunter Army Airfield (HAAF), Georgia

SCOPE

This initiative will privatize the on-post family housing operations and management at Fort Stewart and HAAF, one installation geographically separated by 37 miles. The project will be executed through a real estate transaction between the Army and its development partner, Gary M. Holloway (GMH) Military Housing, Limited Liability Company (LLC), previously selected under a Request for Qualification (RFQ) procurement process. The GMH Military Housing, LLC will develop and manage the Fort Stewart and HAAF residential communities. The partner will design and construct residential communities that will provide soldiers access to quality, affordable family housing.

The Army will convey 2,926 existing housing units and out-lease the underlying land for a period of 50 years with an option to continue the project for an additional 25 years. The Army will make a direct investment of \$37.374 million to the project. In turn, the development partner will invest \$8.9 million in developer funds and obtain commercial first mortgage financing in the amount of approximately \$247.5 million. The land and improvements will revert back to the Army at the end of the lease term.

The initial development plan of the project includes: (1) the demolition/removal from the inventory of approximately 1,092 inadequate homes and (2) the construction of approximately 1,868 new homes. The remaining inventory will be renovated and maintained. The project will result in the developer owning, maintaining, and operating a total of 3,702 housing units. The Fort Stewart and HAAF partner will also construct three new community centers, seven neighborhood centers, and create modern neighborhood amenities such as sports courts, landscaping, and jogging and bike trails. The Army will pay the Basic Allowance for Housing (BAH) to soldiers, who in turn will pay rent and utilities for the privatized housing. Rents will be equal to BAH minus a utility allowance for the soldier to pay utility bills.

AUTHORIZATION

10 U.S.C. -- Section 2875 -- Investments. The Army will make a direct investment of \$37.374 million in a limited liability corporation for purposes of constructing, renovating, operating, and managing family housing.

10 U.S.C.-- Section 2878 -- Conveyance or lease of existing property and facilities. Facilities and infrastructure will be conveyed, and underlying land out-leased to the partner as part of this project.

10 U.S.C. -- Section 2880 -- Unit size and type. Housing will be renovated and constructed to community standards.

10 U.S.C. -- Section 2881 -- Ancillary support facilities. This project includes the transfer of ancillary supporting facilities, such as tot lots and playgrounds, and the construction of new ancillary facilities such as trails, community parks, etc.

JUSTIFICATION

Privatization authorities allow the Army to leverage scarce funds and the value of installation assets to obtain private sector capital and expertise to manage, improve and construct on-post family housing in the U.S. at a life cycle cost less than using traditional appropriated funds and methods. These authorities will allow The Army and its partner to provide quality family housing and residential communities that are sustainable over time.

SOURCE OF FUNDS

The Army will provide \$37.374 million from the Department of Defense Family Housing Improvement Fund (FHIF). The source of funds for this project will be the FY 2002 Army Family Housing Improvement project at Fort Stewart and HAAF.